

Impacts of a National Recession on Idaho

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Since 1980, there have been two official economic recessions in the United States as defined by the U.S. Bureau of Economic Analysis (BEA). The first was for the period of July 1980 to November 1982; the second was for the period of July 1990 to March 1991.

BEA defines an economic recession as a drop in Gross Domestic Product (GDP) for two consecutive quarters. GDP is a measure of the value of goods and services produced by the nation in a given period, usually adjusted for inflation. Because GDP is such a broad measure, it incorporates many other factors, including employment and productivity. Recessions most often happen after a period of economic growth.

The two national recessions since 1980 were caused by a variety of factors, but the two most cited are high inflation rates and high energy prices. During both recessions, job losses occurred at the tail end of the period.

Because there is now some discussion of the possibility of a national economic recession, the questions are—what have been the economic consequences of the past recessions on Idaho, and would these be likely to happen again?

An introductory note is in order. In many respects, Idaho's economy has always acted differently than the national one. Idaho generally has had a growing population base, leading to long-term increases in *Services Producing* jobs. Manufacturing jobs have comprised less than 20 percent of total jobs. There has been a strong reliance on natural resource jobs, including agriculture, as a driver to the overall economic structure of the state. However, this reliance has diminished in recent years, although for the rural areas of the state the reliance is still very strong. Because of the influence of natural resource jobs and weather patterns, Idaho's economy usually has seasonal ups and downs that are independ-

ent of national economic developments. Finally, Idaho's economy is a very small contributor to the national economy. For example, Idaho's labor force is about 0.5 percent of the nation's labor force. This means Idaho does not contribute much to the state of the nation's economy and that the structure and well being of the Idaho economy is, with some notable exceptions, largely dependent upon in-state developments.

The notable exceptions are: mining prices are globally influenced; lumber and wood products are subject to national and some foreign construction/housing markets and public land policies; fuel and transportation costs affect tourism, agriculture, and the movement of input and output products; and Idaho's high-tech manufacturing industries produce goods for the global market.

In addition, the state of the national economy and its regional components has had significant impact on Idaho's population growth, especially migration patterns. Much of Idaho's population growth in the last two decades has been attributed to high unemployment rates in California and manufacturing downsizing in the Mid-West and East. People moved here to find jobs (as well as for quality-of-life issues).

How did Idaho fare during these recessions?

During both recessions, Idaho's **Gross State Product (GSP)** increased, but not at the growth rate of the immediately preceding year. GSP is a measure similar to the national GDP.

The state **unemployment rate** spiked up during the recession years, and the higher rates persisted for a few years after the official national economic recession period. In 1982, the annual average unemployment rate reached 9.9 percent. The highest rate for the 90s recession was 6.2 percent in 1991.

Only in 1980 and 1990 did **total employment** fail to grow. In 1980, there was a 2.9 percent decline in total employment, while in 1990 the decline was a marginal 0.1 percent. During the 1980s recession, there was a three-year decline in the number of **nonfarm jobs**; the state lost 17,775 jobs. However, during the 1990s recession there was an increase of 12,601 jobs.

In 1982, there was a significant increase in **unemployment insurance** weeks and dollars paid. Weeks claimed increased by 59 percent and dollars paid out by 75 percent. These costs declined somewhat in 1983, but remained considerably above pre-recession levels. Weeks claimed in 1992 were 75 percent higher than in 1990 and dollars paid were 88 percent more. As with the 1980s recession, the immediate post-recession year remained at high levels in both categories.

The recessions were felt especially hard in particular parts of the state. During the 1980s recession, 15 counties had double-digit (or nearly so) **county unemployment rates**. Mining and the forest-products industries particularly suffered due to inflation, high interest rates, and weak metal prices. Many of these counties still have high unemployment rates. Even Ada County saw a jump to 7.5 percent in 1982, compared to the pre-recession unemployment rate of 4.0 percent in 1979. During the 1990s recession, six counties fit the double-digit unemployment rate category. An additional industry affected was mobile home manufacturing, again due to high interest rates.

How might Idaho fare if there is a national economic recession in the near future?

In some respects, the Idaho industries that were most affected by the last two recessions--mining and forest-products industries--already have suffered. The natural-resource industries are depressed and have much lower employment levels. It is unlikely that the mining and forest-products industries will recover soon, regardless of national economic conditions.

In addition, most agriculture commodity prices are very low already. Overproduction and shifts in consumer preferences are the primary reasons. Increasingly, foreign countries' trade policies and product specifications are af-

fecting the ability of Idaho producers to market their products.

Population growth is slowing down statewide, but still is strong in the urban areas. Without a recession this means there will continue to be perceived and/or real labor shortages in these areas. If there is a recession in the United States or in particular areas, such as California, there might be more in-migration to Idaho. The continued population growth should support continued growth in the *Services Producing* and *Construction* industries.

Most economists are predicting a near-term slowdown in Idaho's rate of economic and employment growth, but there should still be growth. The same economists say the areas of the state that currently have economic problems will continue to have them.

Idaho does have some industries that might be vulnerable to a national recession. The electronics industry markets nationally (and globally) is inherently volatile. Downturns in customer purchases of these Idaho products would have negative impacts. Higher fuel prices probably would hurt tourism, agriculture, and food processing especially hard. Already there are reports of businesses that use service and delivery vehicles raising prices to the consumer.

The major concern about a downturn in the electronics industry is that it has become the dominant manufacturing industry in the state. The workers are highly specialized. If there are large layoffs in this industry, it is unlikely the unemployed workers would quickly find jobs requiring the same skills and offering comparable pay. This would probably mean longer unemployment insurance claim series and pressure on the Unemployment Insurance (UI) Trust Fund adequacy balance.

Idaho corporations with recession sensitive products and services could see their profits diminish. This would mean less taxes paid, fewer employee bonuses, and downsizing.

The emerging electricity crunch has the effect of an additional tax on businesses and consumers alike.

Continual declines in the stock market erode

consumer confidence and can affect major purchases.

The adequacy of the UI Trust Fund is closely monitored. The most recent analysis suggests the fund is adequate to meet any expected economic slowdowns within Idaho. However, the analysis also says that a repeat of a recession similar to the one in the 1980s would severely test UI Trust Fund adequacy.

Will there be a national economic recession soon?

Nationally, the economists' opinion is mixed. The sitive signs, as compared to the last two recessions, are that interest rates are low and inflation is still very low. The problem with future inflation rates is the soaring cost of energy—fuels and electricity. The CPI is now reflecting these costs and this leads to a ratcheting up of a whole host of other costs, including Social Security benefits, worker pay plans, and business and government expenditures. Interest rates are being closely managed by the Federal Reserve Board and are unlikely to rise very much. In

fact, the Federal Reserve Board recently reduced interest rates in order to stimulate business activity.

The perception of a recession can make it a reality. Consumer confidence, corporate fears of declining stock prices, and the uncertainty in the minds of those who provide investment capital and other types of credit are major factors in the recession mix. If these and other players perceive a recession is imminent, their actions could make it a reality.

The most likely scenario is that there will be a continual shakeout in the stock market, profit losses, and mega-mergers. Consumer confidence will remain positive but flat. The world economy will continue to grow or rebound. Businesses will make extra efforts to increase productivity, but this also means cutting jobs. Yet, if the national economy remains in the 4 to 5 percent unemployment rate range, job opportunities will abound.

FYI Table 1: Idaho Unemployment Insurance Activity 1980 - 1999

	1980	1981	1982	1983	1984
State - Weeks Paid	709,532	705,125	1,120,644	911,860	640,009
State - Dollars Paid	66,998,432	71,447,066	124,869,222	102,545,923	72,785,372
State - Trust Fund Paid*	88,831,235	81,126,648	26,850,066	19,545,062	55,096,831
	1985	1986	1987	1988	1989
State - Weeks Paid	628,176	642,146	544,991	447,750	422,365
State - Dollars Paid	75,630,019	81,157,353	69,668,427	57,286,529	55,151,708
State - Trust Fund Paid*	78,721,677	94,431,892	123,229,602	169,854,239	211,056,297
	1990	1991	1992	1993	1994
State - Weeks Paid	432,218	565,050	754,469	746,905	548,516
State - Dollars Paid	59,533,187	82,502,615	111,843,571	115,915,429	86,919,161
State - Trust Fund Paid*	242,620,136	242,051,342	254,684,281	279,061,261	293,701,173
	1995	1996	1997	1998	1999
State - Weeks Paid	579,465	571,006	523,435	538,656	529,868
State - Dollars Paid	96,025,250	98,392,846	93,377,117	100,258,445	100,523,174
State - Trust Fund Paid*	295,719,659	316,391,695	331,703,776	330,814,400	332,837,261

* Combined Trust Fund Balance includes Reserve

Source: Idaho Dept. of Labor

FYI Table 2: IDAHO & US COMPARISON 1978 - 2000												
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
STATE OF IDAHO												
Civilian Labor Force	414,000	431,000	429,000	428,000	444,000	458,000	462,000	466,000	473,000	473,000	479,000	489,000
Unemployment	23,000	24,000	34,000	32,000	44,000	45,000	33,000	37,000	41,000	38,000	28,000	25,000
% Unemployed	5.6	5.6	7.9	7.5	9.9	9.8	7.1	7.9	8.7	8.0	5.8	5.1
Employment	391,000	407,000	395,000	396,000	400,000	413,000	429,000	429,000	432,000	435,000	451,000	464,000
Nonfarm Payroll Jobs	331,342	338,017	330,008	327,758	312,233	317,867	330,500	335,917	333,625	333,465	348,201	366,169
% Change Labor Force		4.1	-0.5	-0.2	3.7	3.2	0.9	0.9	1.5	0.0	1.3	2.1
% Change Employment		4.1	-2.9	0.3	1.0	3.2	3.9	0.0	0.7	0.7	3.7	2.9
% Change Nonfarm Payroll Jobs		2.0	-2.4	-0.7	-4.7	1.8	4.0	1.6	-0.7	0.0	4.4	5.2
UNITED STATES												
Civilian Labor Force	102,251	104,962	106,940	108,670	110,204	111,550	113,544	115,461	117,834	119,865	121,669	123,869
Unemployment	6,202	6,137	7,637	8,273	10,678	10,717	8,539	8,312	8,237	7,425	6,701	6,528
% Unemployed	6.1	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3
Employment	96,048	98,824	99,303	100,397	99,526	100,834	105,005	107,150	109,597	112,440	114,968	117,342
Nonfarm Payroll Jobs	92,661	95,477	95,938	97,030	96,125	97,450	101,685	103,971	106,434	109,232	111,800	114,142
% Change Labor Force		2.7	1.9	1.6	1.4	1.2	1.8	1.7	2.1	1.7	1.5	1.8
% Change Employment		2.9	0.5	1.1	-0.9	1.3	4.1	2.0	2.3	2.6	2.2	2.1
% Change Nonfarm Payroll Jobs		3.0	0.5	1.1	-0.9	1.4	4.3	2.2	2.4	2.6	2.4	2.1
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*	
STATE OF IDAHO												
Civilian Labor Force	492,619	508,687	531,994	547,678	591,463	600,493	618600	632,934	653,768	655,272	670,915	
Unemployment	29,135	31,617	34,651	34,025	32,874	32,355	32,393	33,805	32,875	33,913	30,171	
% Unemployed	5.9	6.2	6.5	6.2	5.6	5.4	5.2	5.3	5.0	5.2	4.5	
Employment	463,484	477,070	497,343	513,653	558,589	568,138	586,207	599,129	620,893	621,359	640,744	
Nonfarm Payroll Jobs	385,403	398,084	416,604	436,815	461,386	477,414	491,863	508,813	521,583	539,169	557,311	
% Change Labor Force	0.7	3.3	4.6	2.9	8.0	1.5	3.0	2.3	3.3	0.2	2.4	
% Change Employment	-0.1	2.9	4.2	3.3	8.7	1.7	3.2	2.2	3.6	0.1	3.1	
% Change Nonfarm Payroll Jobs	5.3	3.3	4									